

**Exhibit A**

**REQUIREMENTS, STANDARDS, AND GUIDELINES  
FOR INVESTMENTS**

**University Investment Manager**

**Goal**

The investment goal of the portfolio is to provide TVA with a strategic allocation to the domestic equity market. Manager has been selected by TVA as portfolio manager of this strategic allocation. Manager's assignment is to construct and actively manage the portfolio in a manner consistent with this investment goal and to add value relative to return opportunities that could be achieved from a passive exposure to this market segment. The assets of the portfolio are tax-exempt.

**Objective**

The investment objective of the portfolio is to achieve long-term capital growth by investing in marketable U.S. common stocks with a risk profile that is similar to the risk profile of the market benchmark. Specific investment objectives are intended to define quantifiable measures by which the results of the portfolio will be measured and evaluated on an ongoing basis. The performance results and investment characteristics of the portfolio will be measured and evaluated relative to an overall measure of the large segment of the domestic equity market, a style-oriented benchmark (if applicable) which will measure the portfolio relative to the style segment of the large domestic equity universe and a universe of professionally managed large core-oriented equity managers and other universities managing TVA decommissioning funds (together with Manager, hereafter "University Managers"). The relative domestic equity market benchmark is defined as the S&P 500 Index. Prior to each calendar year, the Manager will select either the S&P 500, S&P Barra Growth or S&P Barra Value Indices as the relative domestic style-oriented benchmark. This annual selection will be communicated in writing to TVA's Investment Challenge Program Manager. The universe of professionally managed accounts is defined as the Wilshire Large Core Equity Universe. Therefore, the portfolio should strive to meet or exceed the following performance objectives: .

- The portfolio is expected to outperform the S&P 500 Index over a one-year horizon. Over a three- to five-year horizon, the portfolio is expected to generate a total return of at least 100 basis points over the S&P 500 Index.
- Generate a total return that ranks in the top 50% of the Wilshire Large Core Equity Manager Universe.
- Generate a total return that ranks in the top 15% of the University Manager Universe over a one- to three-year horizon.

- The portfolio is expected to outperform the S&P Barra Growth Index or the S&P Barra Value Index when selected as the style benchmark over a one-year horizon. Over a three- to five-year horizon, the portfolio is expected to generate a total return of at least 100 basis points over the selected style benchmark.

## **Guidelines**

The following points highlight the investment guidelines that have been established for the portfolio. Manager is expected to follow these guidelines carefully while implementing and executing portfolio strategy. If the manager is in non-compliance with these guidelines, the manager will have 30 days to rebalance the portfolio to meet these guidelines.

- **Asset Allocation**

The portfolio is expected to be invested exclusively in U.S. listed equity securities. Any cash equivalent investment should represent "frictional" or operational amounts and not strategic allocations. Therefore, cash equivalents should not exceed 5% of the portfolio at any time. Should market conditions suggest a hostile environment where this guideline may be detrimental to the financial well being of TVA, Manager should communicate suggested tactical adjustments to this guideline with authorized representatives of TVA. Cash equivalent balances are expected to be invested in a short-term investment fund managed by the assigned custodian bank.

- **Diversification**

Portfolio performance is expected to achieve value added results through active management decisions. However, the portfolio is expected to be diversified with respect to the exposures to economic sectors, industries and individual stocks. The following diversification guidelines apply to the construction of the portfolio:

- The maximum allocation to any economic sector (sectors will be defined by Standard and Poors) may not exceed the sector weight of the selected benchmark index plus 10%. For example, if the Energy sector comprises 10% of the S&P 500 Barra Value Index, the maximum allocation to the Energy sector must not exceed 20% of portfolio assets.
- The maximum allocation to any one economic sector may not exceed 40% of portfolio assets, unless the sector weight of the selected benchmark exceeds 40% in which case the maximum weight to the sector would be 110% of the sector weight. For example, if the Technology sector comprises 41% of the S&P 500 Barra Growth Index, the maximum allocation to the Technology sector must not exceed 45.1% of portfolio assets.
- At time of purchase, no single issue should exceed 5% (at market value) of the portfolio for portfolios in excess of \$150,000 and 8% (at market value) of the portfolio for portfolios equal to or less than \$150,000. Positions may be allowed to drift up to 8% (at market value) of the portfolio for portfolios in excess of

\$150,000 and 10% (at market value) of the portfolio for portfolios equal to or less than \$150,000.

- The portfolio is expected to be constructed with a minimum of 20 individual stocks for portfolios in excess of \$150,000 (at market value) and 15 individual stocks for portfolios equal to or less than \$150,00 (at market value).
- Investments in Real Estate Investment Trusts ("REITS") should not exceed 5% of the portfolio at any time.

- **Market Capitalization**

The majority of the portfolio is expected to primarily be invested in well-established, large market capitalization companies. Therefore, the average market cap of the portfolio is expected to be above \$10 billion.

The portfolio may also invest in less established, small capitalization companies. However, based on the strategic role of this portfolio in the context of the overall investment program, no more than 35% of the portfolio may be invested in small capitalization companies. For this purpose, small capitalization is defined as companies with a market capitalization of less than \$1 billion. Companies with a market capitalization below \$250 million at the time of purchase are prohibited. Positions that drift below \$250 million in market capitalization after purchase shall be reported to TVA and monitored carefully. The portfolio shall not have more than 5% invested in securities that have drifted below \$250 million.

- **Other Transactions and Policies**

- **American Depositary Receipts ("ADR's")** may be used to construct the portfolio. However, because of the strategic role of the portfolio, positions in stocks traded as ADR's are limited to no more than 15% of the portfolio market value. The 15% limitation includes foreign securities traded on U.S. Exchanges that are not ADR's.
- **Prohibited Transactions** – The portfolio is prohibited from investing in any of the following investment vehicles or activities unless approved by an authorized representative of TVA: Any securities issued by an investor owned electric utility or independent power producers; Fixed income securities; Non-marketable securities (including private debt securities and/or direct placements); Non-dollar denominated securities; Commingled funds (including mutual funds); Convertible or preferred securities; Warrants; Commodities; Real estate investments (excluding Real Estate Investment Trusts); Short sales; Margin purchases; Swaps (index or rate of return) and Securities lending.
- **Derivatives Policy** - Manager is not authorized to use derivative securities (defined as options and futures). More specifically, Manager is prohibited from using any form of derivative security that effectively leverages the portfolio.

**Communications**

TVA must be informed within 24 hours if any of the following events occur:

- A change in investment philosophy that represents a deviation from this policy statement.
- A change in their investment style that represents a deviation from this policy statement.
- Any development in the ability of Manager to manage the portfolio either in accordance with the standards of a prudent investment manager or within the context of this statement of investment policy.
- Any situation that has the potential to impact either the professionalism, financial position or the integrity of either TVA or Manager.